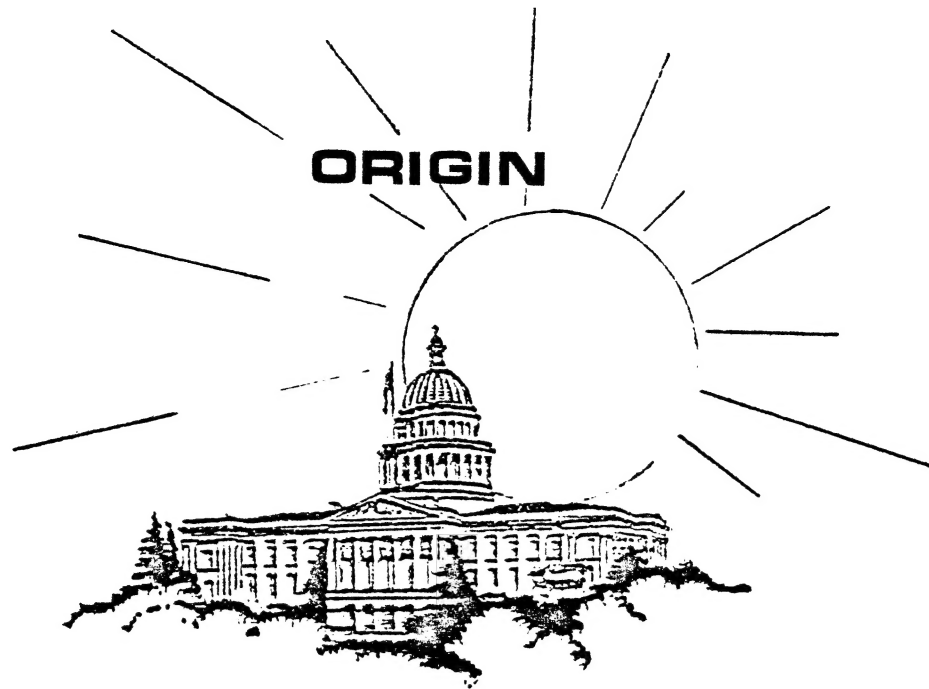


1976 ANNUAL REPORT

A Report of the Auditor General
to the
Joint Legislative Audit Committee
and the
California Legislature

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Over twenty years ago, the California Legislature created the Joint Legislative Audit Committee and the Office of the Auditor General and made us responsible for the independent audit function in California (Stats. 1955, Ch. 1699).

In 1954, the legislative and executive branches of state government recognized the need for two types of audits in California--internal and independent. Internal audits, coordinated within the executive branch, would be directed by the Governor. Independent audits would be under the policy direction of a legislative committee.

To establish sound fiscal and administrative policies, both branches of government need straightforward facts about program operations and expenditures. Today, in every major state agency, internal auditors are studying, analyzing, and recommending improvements in their own operations. At the same time, our independent evaluations of agency operations are available to legislators. With access to internal and independent audit information, legislative committees are better prepared to make the budget and policy decisions that confront them each year.

Joint Legislative Audit Committee

The Joint Legislative Audit Committee consists of four members of the Senate and four members of the Assembly. Under the Legislature's Joint Rules, the Senate and Assembly fiscal committee chairpersons are two of the eight members. Senate members are appointed by the Senate Committee on Rules, and Assembly members are appointed by the Speaker of the Assembly.

At the close of the 1975-76 Legislative Session, these legislators formed the Joint Legislative Audit Committee:

Assembly

Mike Cullen, Chairman

Daniel Boatwright

Eugene Chappie

Bob Wilson

Senate

Clare Berryhill, Vice Chairman

Anthony Beilenson

George Deukmejian

Nate Holden

Any legislative committee may request the Auditor General to conduct an audit or special investigation. All such requests, however, must be authorized by the Joint Legislative Audit Committee. The Committee then establishes work priorities and directs the Auditor General to commence the audit.

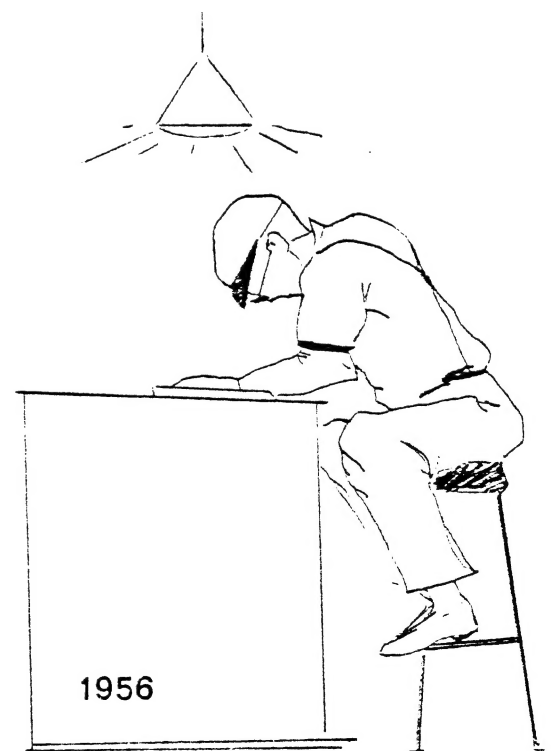
Auditor General

Once a specific request is approved by the Joint Legislative Audit Committee, the Auditor General may "make such special audits and investigations, including performance audits, of any state agency whether created by the Constitution or otherwise." Our professional staff is trained to conduct in-depth interviews, to observe, and to review and analyze records to get the facts. When we have assembled the facts, we submit to the Audit Committee an objective and nonpartisan report of our findings and recommendations. Our reports are a legislative resource for systematic and timely information on executive branch program operations and results.

Responsibilities & Objectives

As directed by the Joint Legislative Audit Committee, the Auditor General conducts financial audits and performance reviews of state agencies.

When our work began in 1956, our audits concentrated on the traditional financial review, determining if fiscal operations were properly conducted and if financial statements were presented fairly. After 1956, however, financial reporting in the executive branch improved; the scope of their own internal audits broadened to better serve management and the Legislature.



As financial reporting improved, legislators wanted more in-depth information on the Governor's programs. Moreover, they wanted to have this information provided, or at least concurred in, by someone who was not an advocate of the program but who was independent and objective. The Joint Legislative Audit Committee responded to the changing needs of the Legislature and directed the Auditor General to conduct performance audits. In the past ten years, we have experienced a dramatic shift in our work from the traditional financial audits to the broad-scope performance audits.



The potential benefit from performance audits is tremendous:

- Increased legislative understanding of selected programs
- Improved government operations and services
- Identification of ways to save money by increasing revenues or decreasing expenditures.

The objective of performance audits is to evaluate:

Legal Compliance

- Are programs administered in accordance with their governing laws?
- Do agency programs comply with legislative intent?

Efficiency and Economy

- Are programs administered using the least cost combination of public funds and other resources?
- Do programs duplicate or overlap each other?

Program Results

- Are desired program results or benefits being achieved?
- Do program costs exceed benefits?

Our goal is to help achieve the most efficient, effective, and economical government possible by providing the Legislature and the taxpayers with quality, independent audit reports that present thoroughly documented facts and appropriate recommendations.

We encourage wide distribution of our reports, understanding that it is public response that frequently brings about or speeds up needed governmental reform. Reports are distributed to all legislators, the Governor and other elected officials, heads of state agencies, the press, and anyone who asks for them.

We serve as an independent source of information on the accountability of public administrators for their programs. The public--who pays for and whose good is expected to be served by such programs--should be able to hold public officials accountable for their performance. The Joint Legislative Audit Committee and the Office of the Auditor General provide the Legislature and the public one important means of accomplishing this objective.

Audit Standards

The Office of the Auditor General has adopted the standards for auditing developed and issued by the United States General Accounting Office (GAO), our counterpart at the national level. These standards are the product of extensive study of the auditing needs and practices of federal, state, and local governments, and are printed in the GAO booklet, Standards for Audit of Governmental Organizations, Programs, Activities and Functions.



Our professional audit staff is composed of men and women with a rich variety of backgrounds. All have college degrees, and over forty percent have advanced degrees. Of the 49 positions currently filled, 15 are certified public accountants and two are lawyers. The balance of our staff has professional expertise in such fields as social welfare, budgeting, economics, electronic data processing, banking and finance, statistics, education, writing and editing, health, investments, marketing, political science, and engineering.

Staff

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TERRI WINGATE

INTERACTION WITH THE LEGISLATURE



Committee Hearings

The Auditor General and his staff are often asked to appear at legislative hearings to testify on audit reports. Policy committees frequently consider legislation recommended in our reports; fiscal committees confront budget decisions for state agencies that we have reviewed. Although we have no authority to implement our recommendations, our reports and our participation at legislative hearings contribute to the process.

<u>Date</u>	<u>Committee and (Chairperson)</u>	<u>Subject</u>
June 11	Joint Committee on Motor Vehicle Inspection (Senator Robert Presley)	The Vehicle Emission Inspection Program
September 21	Senate Committee on Agriculture and Water Resources (Senator Howard Way)	Egg Marketing Programs
September 23	Senate Subcommittee on Veterans Affairs (Senator Ralph Dills)	California Veterans Board and Cal-Vet Home Loan Program
October 5	Assembly Committee on Governmental Organization (Assemblyman Bob Wilson)	The California Horse Racing Board
November 8	Assembly Subcommittee on Parks and Forestry (Assemblyman Herschel Rosenthal)	Acquisition practices of state park system and off-highway vehicle program
November 9	Assembly Committee on Human Resources (Assemblyman Ken Maddy)	Homemaker-Chore Services
November 15	Senate Transportation Committee (Senator Randolph Collier)	The equity of highway users' taxes
December 1	Joint Fairs, Allocation and Classification Committee (Assemblywoman Pauline Davis)	Vocational Education Program
December 1	Assembly Labor Relations Committee (Assemblyman Bill Lockyer)	State manpower policies and programs; CETA

Professional Career Development

The Office of the Auditor General recognizes the need for continuing education for auditors in a dynamic governmental environment. In the past year, we developed a comprehensive Professional Career Development Program for the staff with three training objectives forming the framework for the program:

- To maintain the technical audit skills acquired in school and on the job
- To enlarge the scope of knowledge of specialized professionals as the state of the art advances
- To prepare the staff to assume the greater responsibilities of higher position classifications.

Defining Staff Responsibilities

After defining our training objectives, we examined the functional responsibilities of each staff classification. Junior and Assistant Auditors are primarily involved in and responsible for the detailed and technical audit fieldwork. The Associate Auditor is generally assigned a major segment of an audit and begins to assume a supervisory role. At the Staff and Senior levels, responsibilities are broadened to include planning, controlling and supervising the audit work; report writing becomes a major responsibility at this level. The Supervising Auditor and Audit Manager have responsibility for coordinating a number of audits and are involved in the broad policy decisions of the office.

Matching Responsibilities and Training

The scope and content of our training programs are unmatched by any other government audit organization. They are designed to address the varied and increasing responsibilities encountered by the staff as they move up in the organization. We chose courses that deal with operational audit techniques and theoretical concepts that all auditors must work with. We recognize that computers are here to stay and we provide progressively complex training in audits involving electronic data processing.

Several training courses stress communication--both oral and written. Good counseling and supervising skills are also essential, and we offer training sessions in both the technical and practical applications of managing people.

Delivering the Program

We employ various methods of delivering our Professional Career Development Program. Our staff has expertise in a wide range of disciplines, and we rely heavily upon our own staff to conduct in-house training programs where appropriate. Our auditors also attend courses conducted by outside sponsors. Technical groups such as the Intergovernmental Audit Forum and the Council of State Governments are becoming increasingly active trainers. The U. S. Civil Service Commission and the State of California's Personnel Development Center offer many training opportunities which we utilize. Private accounting firms, colleges and universities conduct educational seminars, and their excellent instructors assist us in both consulting and delivery capacities.

In addition to formal classroom training, we place a strong emphasis on practical on-the-job-training experiences. We again utilize the skills and talents of our multi-disciplined staff, by rotating audit personnel at the conclusion of each assignment to provide a broad base of exposure for all staff levels.

Evaluating the Effect

Several indices measure the effectiveness of our training program. Evaluations from participants are solicited at the completion of each training program. The progress we make in completing our audits in the most efficient and effective manner possible demonstrates the effect of training on technical and planning skills. And, of course, the quality of our end product--the audit report--is the ultimate measure of the overall success of our Professional Career Development Program.

No professional development program can succeed without the agreement and support of an organization's top management. Both the Office of the Auditor General and the Joint Legislative Audit Committee have demonstrated their strong commitment to continued progress through a training program designed to benefit the staff, the Office, and ultimately the citizens of the State of California.

AUDITS IN PROGRESS

Our auditors are currently working on over 20 different audits. As the following list shows, the variety in our work is tremendous.

- Investment policies of the State of California, and potential for increased interest earnings
- Department of Insurance
- Sick leave usage patterns of certificated school employees
- State Bar Association
- Medi-Cal fiscal intermediaries
- Energy Resources Commission
- Milpitas Unified School District
- Department of Corrections--rehabilitation, inmate welfare funds, and the security housing unit
- State Victim Indemnity Fund
- Department of Benefit Payments and the Aid to Families With Dependent Children Program
- Probation Subsidy Program
- Financial records of the Department of Transportation
- Narcotics and Drug Abuse Program
- Pesticides, the dry bean marketing order, and the Department of Food and Agriculture
- Efficiency of public transportation
- State printing and reproduction costs and public information personnel working for the State
- Nursing homes and long-term care for the aged
- Mobilehome park services to residents
- Year-round schools
- Fuel tax feasibility
- State Compensation Insurance Fund
- Availability of hospital beds

1976

REPORT SUMMARIES 

BUSINESS TAXES

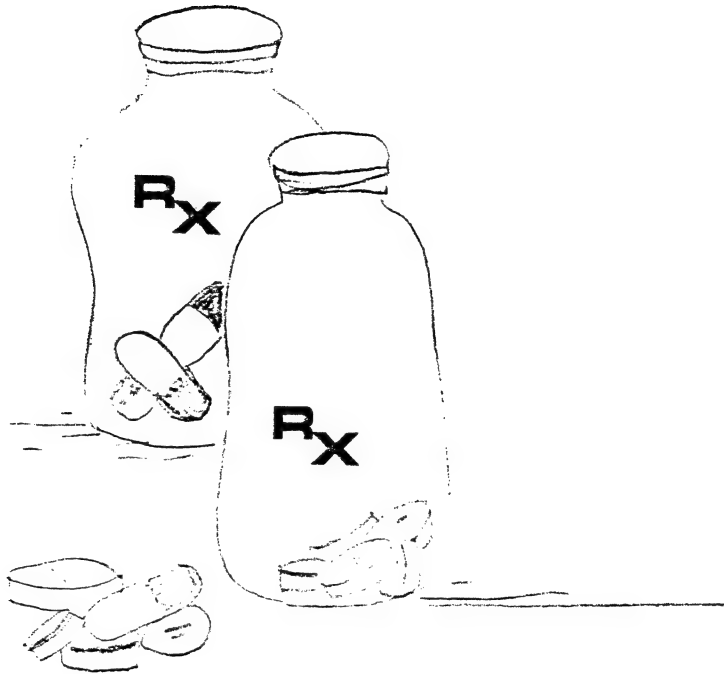


As part of the overall review of revenue agencies, we examined the State Board of Equalization. Besides being responsible for equalizing the property assessment levels in California, the Board also collects the following business taxes: state, county, city, and transit district sales and use; cigarette; insurance gross premium; alcoholic beverage; private (railroad) car; gasoline; use fuel; transportation; and an energy resources surcharge.

We recommend several legislative changes to improve the State's cash flow and increase interest income. If the State required businesses to deposit sales, gasoline, and alcoholic beverage taxes directly in a bank collection account, net interest income to the State should be increased. Earlier remittance of sales, gasoline, and insurance premium taxes would help the State collect an estimated \$6 to \$8 million in additional interest income annually.

215.2

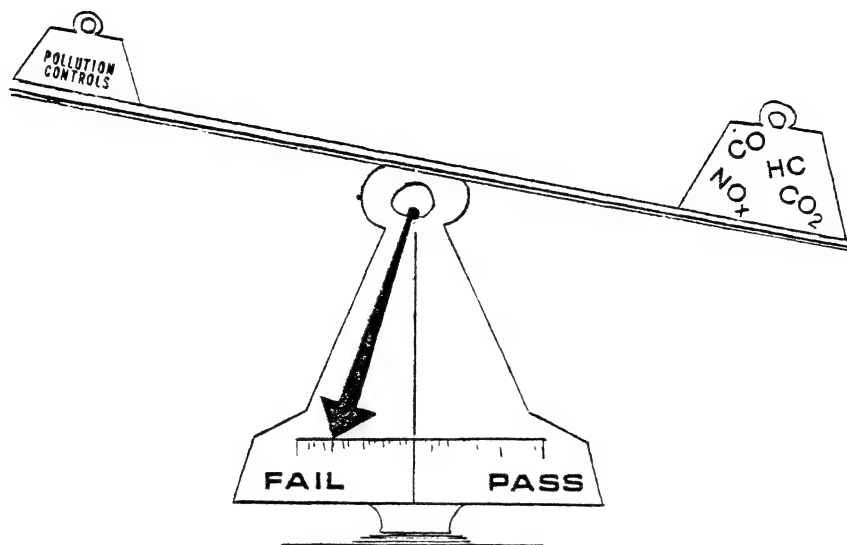
PHARMACIES



In California, every pharmacy must post the prices of the leading selling drugs. This information is available for the benefit of the consumer. We surveyed 105 pharmacies in the five most populous counties in the State. Of these pharmacies, 16 percent did not post the prescription prices in a conspicuous place. Forty-six percent quoted a different price over the telephone than was listed on their price poster. Failing to properly post the prescription price poster denies the consumer public of its right to obtain information to compare drug prices and the services available among pharmacies.

236.4

EXHAUST EMISSIONS

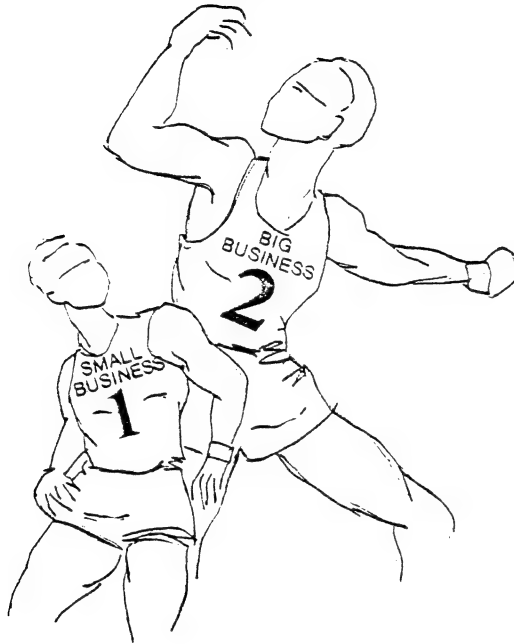


A large part of the air pollution in California is caused by automobiles. In 1973, the Legislature called for a vehicle inspection program for periodic inspection of motor vehicle exhaust emissions in six Southern California counties. Exhaust emissions would be measured, and owners of vehicles failing the tests would be given a written notice of the probable cause of failure.

The State contracted with a company to design and recommend an inspection program. We reviewed the contractor's performance and final report and evaluated the proposed use of mini-computers. We determined that state personnel and the contractor performed inadequate technical analyses; as a result, some of the program recommendations are unjustified. Over ten years, these unjustified recommendations could cost the State over \$160 million. We recognize the importance of clean air, and our recommendations to improve the program do not sacrifice program objectives.



SMALL BUSINESSES

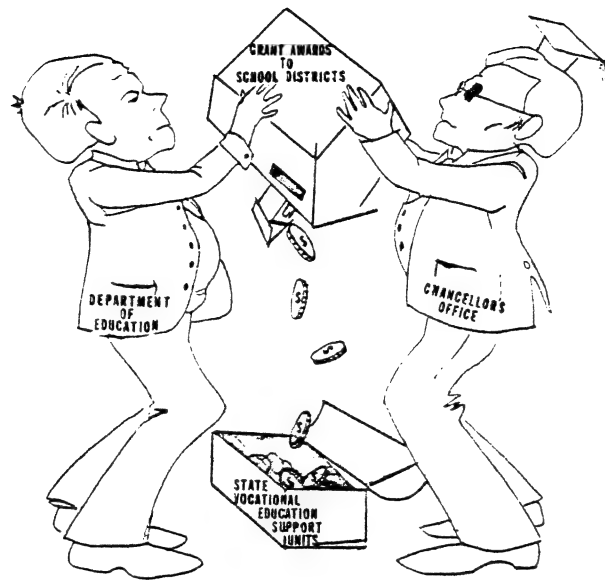


The small business program in California has not fully accomplished the intent of the Small Business Procurement and the Contract Act.

When responsibility and quality are equal, the State gives a five percent price preference to small businesses bidding on state purchases and contracts. Of the total price preference given for contracts awarded in 1975 by the Office of Procurement, 14 percent went to vendors who were not small businesses. Nearly 28 percent of the total price preference went to vendors whose identity as small businesses is questionable.

The Small Business Office of the Department of General Services has not had a significant impact on the small business community. If the Department does not come up with a plan to improve the program, we believe funding should be terminated.

VOCATIONAL EDUCATION

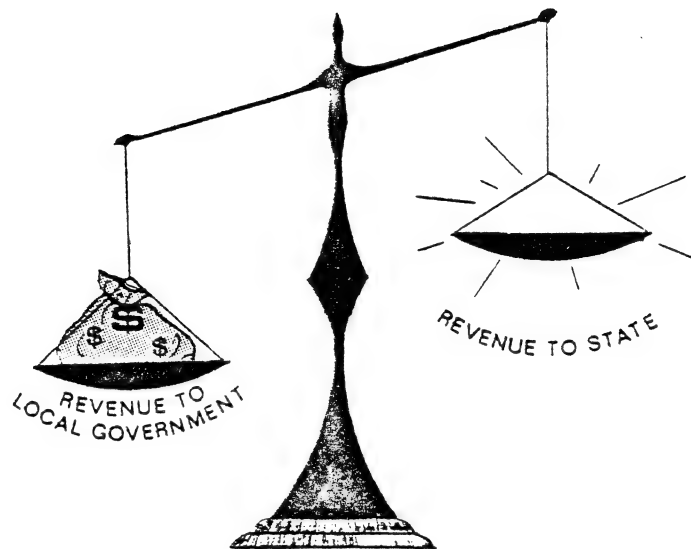


Approximately \$3 million of federal vocational education funds were diverted from local assistance to augment state level spending over and above that which had been authorized by the Legislature for the Department of Education and the Chancellor's Office of the California Community Colleges. This unauthorized method of "back-door" funding circumvented not only legislative budgetary controls on state spending, but also was used to conduct activities in violation of state mandated administrative controls.

The Department of Education has not committed federal vocational education funds in a timely manner for their intended purposes, resulting in large uncommitted balances; in the two years we examined, a total of \$384,356 was forfeited.

Bank accounts were maintained outside the State Treasury in violation of state law by the Vocational Education support units of the Department of Education and the Chancellor's Office.

TRAFFIC TICKETS

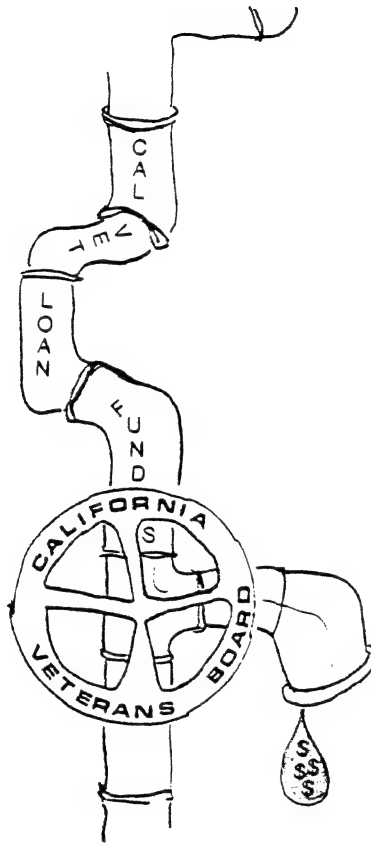


Traffic citations generate revenue for city and county governments. At the same time, they cost the State administrative expense. In 1975, for example, the State processed over four million court abstracts of traffic citation convictions; it cost the State Department of Motor Vehicles and the California Highway Patrol approximately \$17 million to process these citations.

We believe that the costs should be recovered from the guilty drivers. A \$3.75 assessment fee for each traffic citation conviction issued by the courts would cover the administrative costs of processing traffic citations.

272.1

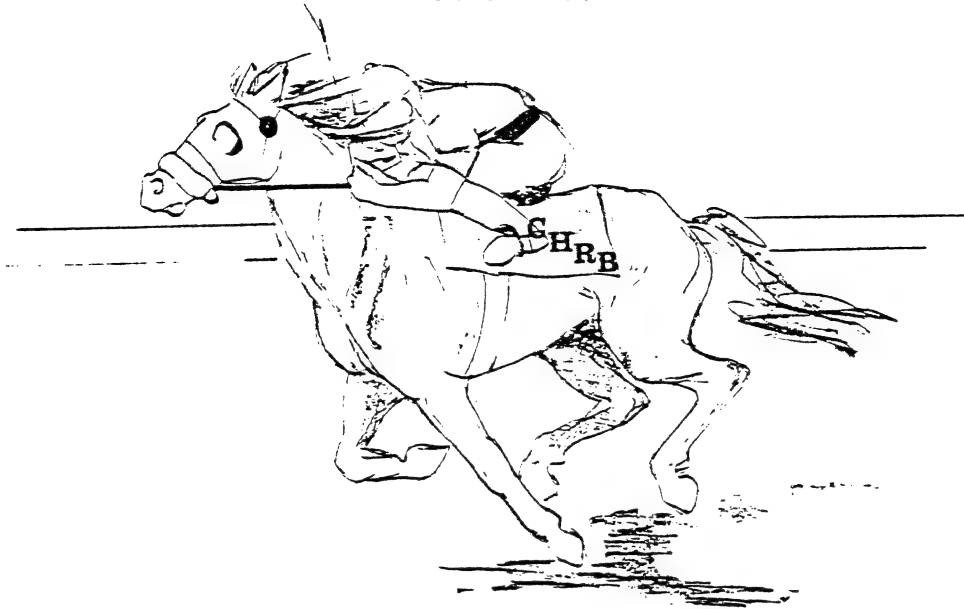
CAL-VET LOANS



The California Veterans Board maintains a cash reserve equal to one-half the Cal-Vet loan payments due in the following year. Currently, \$80 million is maintained in the contingency reserve. The cash is not used to make loans; instead, it is invested in the State's Surplus Money Investment Fund.

The projected demand for new Cal-Vet loans exceeds the available funds by about \$200 million. Eliminating the Board's unnecessary contingency reserve would free another \$80 million for loans to California veterans.

HORSE RACING

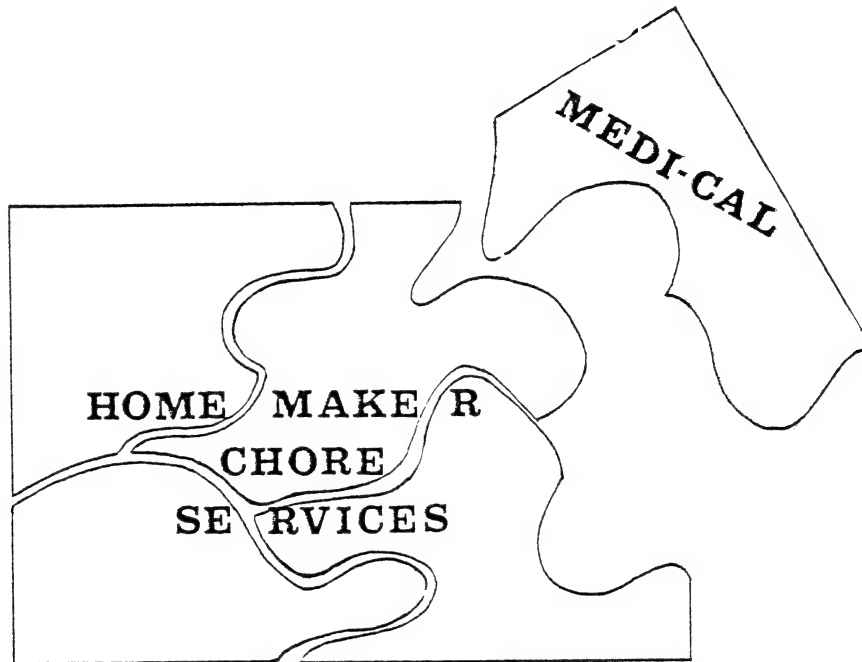


Going to the races? The California Horse Racing Board has jurisdiction over all horse race meetings in California. The Board is responsible for ensuring that horse race meetings are properly conducted.

Much of horse racing depends on the participants. Because the California Horse Racing Board licenses every participant, we believe the Board should obtain more background information on applicants before issuing licenses to them. We found that many participants misrepresented themselves on their license applications, and the Horse Racing Board was not aware of it.

According to the Horse Racing Law, the Horse Racing Board should be a counsel to the Governor and the Legislature on horse racing issues. During the last 16 years, however, the Board has not fulfilled this responsibility. We recommend several improvements that should help the California Horse Racing Board maintain its status as a leader among the racing commissions of the 30 states that authorize wagering on horse racing.

HOMEMAKER-CHORE SERVICES



In June 1975, we conducted a management review of the Homemaker-Chore Services Program. This year the Joint Legislative Audit Committee asked us to update our report. Although we found that the Department of Health had made recent improvements, we were still very concerned about the continued failure to (1) properly monitor the administration of the program, (2) adopt appropriate regulations for the counties to follow, and (3) use available federal funding to supplement the Homemaker-Chore Services Program. We encouraged the Department of Health to promptly bring about needed changes in the program.

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*OFFICE OF THE AUDITOR GENERAL
925 L Street, Suite 750
Sacramento, California 95814*

AUTHORITY

PERTINENT STATUTES RELATING TO THE JOINT LEGISLATIVE AUDIT COMMITTEE AND THE AUDITOR GENERAL

GOVERNMENT CODE

Article 1. Joint Legislative Audit Committee

10500. The Legislature finds that auditing is now conducted by various state agencies and recognizes the needs of the executive branch of the state government for periodic and special audits of the revenues and expenditures of any state agency, and the accounting and fiscal reporting systems established in state agencies, as a means of insuring the proper and lawful expenditure of state funds. The Legislature, also, recognizes the necessity of an independent audit, in addition to the audit conducted within the executive branch of state government, for the use of both the executive and legislative branches of the state government in establishing a sound fiscal and administrative policy for the government of the state.

Therefore, it is the desire of this Legislature that the internal auditing be coordinated in the executive branch of the government in the interest of economy and efficiency. It is also the desire of the Legislature to create the office of the Auditor General, whose primary duties shall be to examine and report annually upon the financial statements prepared by the executive branch of the state and to perform such other related assignments, including performance audits, as may be requested by the Legislature. The authority of the office under the direction of the Joint Legislative Audit Committee is confined to examining and reporting and is in no way to interfere with adequate internal audit to be conducted by the executive branch of the government.

10501. The Joint Legislative Audit Committee is hereby created. The committee shall determine the policies of the Auditor General, ascertain facts, review reports and take action thereon, and make reports and recommendations to the Legislature and to the houses thereof concerning the state audit, the revenues and expenditures of the State, its departments, subdivisions, and agencies, whether created by the Constitution or otherwise, and such other matters as may be provided for in the Joint Rules of the Senate and Assembly. The committee has a continuing existence and may meet, act, and conduct its business at any place within this State, during the sessions of the Legislature or any recess thereof, and in the interim period between sessions.

10502. The committee shall consist of three Members of the Senate and three Members of the Assembly who shall be selected in the manner provided for in the Joint Rules of the Senate and Assembly. The committee shall elect its own chairman. Vacancies occurring in the membership of the committee between general sessions of the Legislature shall be filled in the manner provided for in the Joint Rules of the Senate and Assembly. A vacancy shall be deemed to exist as to any member of the committee whose term is expiring whenever such member is not reelected at the general election.

10503. The committee is authorized to make rules governing its own proceedings and to create subcommittees from its membership and assign to such subcommittees any study, inquiry, investigation, or hearing which the committee itself has authority to undertake or hold. The provisions of Rule 36 of the Joint Rules of the Senate and Assembly relating to investigating committees shall apply to the committee and it shall have such powers, duties and responsibilities as the Joint Rules of the Senate and Assembly shall from time to time prescribe, and all the powers conferred upon committees by Section 11, Article IV, of the Constitution.

Notwithstanding any other provision of law to the contrary, the committee shall establish priorities and assign all work to be done by the Auditor General.

10504. The committee shall have authority to appoint an Auditor General, deputies and staff, who shall serve at the pleasure of the committee. The committee shall fix the salary of the Auditor General. The funds for the support of the committee shall be provided from the Contingent Funds of the Assembly and Senate in the same manner that such funds are made available to other joint committees of the Legislature.

10505. The governing board or retirement board of the retirement system of every local agency as defined in Section 54951, shall on or before six months following the close of the fiscal year transmit to the committee a report containing a description of all securities held and a comprehensive report of transactions involving the investments of their retirement funds similar to that required of a life insurance company licensed to do business in California. Such report shall include all security transactions, including whom the board purchased securities from and through whom the board purchased. The board shall also so report on all mortgage transactions, including specifically the mortgage broker, mortgage banker, and savings and loan association the board does business with, whether the transaction involved cash, and which banks or savings and loan associations the board has accounts with.

Article 2. Auditor General

10521. The Auditor General, prior to his appointment, shall possess the following minimum qualifications:

(a) He shall be in possession of a valid certificate issued by the State Board of Accountancy to practice as a certified public accountant or a public accountant, and

(b) The combination of education and experience which in the opinion of the committee is necessary.

10522. The Auditor General shall be paid the salary fixed by the Joint Legislative Audit Committee and shall be repaid all actual expenses incurred or paid by him in the discharge of his duties.

10523. The Auditor General may employ and fix the compensation, in accordance with Article XXIV of the Constitution, of such professional assistants and clerical and other employees as he deems necessary for the effective conduct of the work under his charge.

10524. The permanent office of the Auditor General shall be in Sacramento, where he shall be provided with suitable and sufficient offices. When in his judgment the conduct of his work requires, he may maintain offices at other places in the State.

10525. All books, papers, records, and correspondence of the bureau pertaining to its work are public records and shall be filed at any of the regularly maintained offices of the Auditor General, except:

(a) Papers or memoranda that are of no further use may be destroyed upon approval of the Joint Legislative Audit Committee.

(b) Personal papers and correspondence of any person receiving assistance from the Auditor General when such person has requested in writing that his papers and correspondence be kept private and confidential. Such papers and correspondence shall become public records whenever the Auditor General or the Legislature shall so order or the written request is withdrawn.

(c) Papers, correspondence or memoranda pertaining to any audit or investigation not completed, when in the judgment of the Auditor General, disclosure of such papers, correspondence, or memoranda will impede such audit or investigation.

10526. It shall be a misdemeanor for the Auditor General or any employee of the bureau to divulge or make known in any manner not permitted by law, any particulars of any record, document, or information the disclosure of which is restricted by law.

10527. The Auditor General during regular business hours shall have access to, and authority to examine, any and all books, accounts, reports, vouchers, correspondence files and other records, bank accounts, and money or other property, of any agency of the State whether created by the Constitution or otherwise, and it shall be the duty of any officer or employee of any such agency, having such records or property in his possession or under his control, to permit access to, and examination thereof upon the request of the Auditor General or his authorized representative. Any officer or person who shall fail or refuse to permit such access and examination, shall be guilty of a misdemeanor.

10528. The Auditor General, with the approval of the Joint Legislative Audit Committee, shall examine and report annually upon the financial statements prepared by the executive branch of the state to the end that the Legislature will be informed as to the adequacy of such financial statements in compliance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year. In making such examination, he is authorized to make such audit examination of accounts and records, accounting procedures and internal auditing performance as the Joint Legislative Audit Committee may determine and specifically designate to be necessary to disclose all material facts necessary to proper reporting to the Legislature in accordance with the statement of purposes set forth in Section 10500. He shall make such special audits and investigations, including performance audits, of any state agency whether created by the Constitution or otherwise, as requested by the Legislature or any committee of the Legislature.

JOINT RULES OF THE SENATE AND ASSEMBLY (1973-74)

37.2 The Joint Legislative Audit Committee is created pursuant to the Legislature's rulemaking authority and specific constitutional authority by Chapter 4 (commencing with Section 10500) of Part 2, Division 2, Title 2 of the Government Code. The committee shall consist of four Members of the Senate and four Members of the Assembly who shall be selected in the manner provided for in these rules, of which one shall be the Chairman of the fiscal committee for the Senate and one the chairman of the fiscal committee for the Assembly. Notwithstanding anything to the contrary in these rules, two members from each house constitute a quorum and the number of votes necessary to take action on any matter. The Chairman of the Joint Legislative Audit Committee, upon receiving a request by any Member of the Legislature or committee thereof for a copy of a report prepared or being prepared by the Auditor General shall provide the member or committee with a copy of such report when it is, or has been submitted by the Auditor General to the Joint Legislative Audit Committee.

AUDIT APPROVAL AND RELEASE PROCEDURES

1. Any Committee Chairman, Legislator who is an elected officer of the Legislature, or member of the Joint Legislative Audit Committee may request that the Chairman of the Joint Legislative Audit Committee authorize the Auditor General to perform an audit. (6/3/75)
2. The Chairman shall transmit the audit request to the Auditor General for the purpose of determining the feasibility of performing the requested audit. The Auditor General shall review the audit request in the context of the capabilities of his Office and return written recommendations to the Chairman within two weeks. (6/3/75)
3. No action shall be taken on an audit request until such time as the Joint Legislative Audit Committee has reviewed the audit request, and the Auditor General's recommendations on the feasibility of performing the audit request, in an open meeting at which the Legislator requesting the audit, or his authorized representative, shall appear to submit reasons for approving it. (6/3/75)
4. The Chairman shall authorize the Auditor General to initiate an audit only after the audit request is approved at an open meeting of the Joint Legislative Audit Committee. (6/3/75)
5. The committee shall consist of four Members of the Senate and four Members of the Assembly who shall be selected in the manner provided for in these rules, of which one shall be the chairman of the fiscal committee for the Senate and one for the chairman of the fiscal committee for the Assembly. Notwithstanding anything to the contrary in these rules, two members from each house constitute a quorum and the number of votes necessary to take action on any matter. (Joint Rule 37.3/1975-76)
6. Audit request of an urgent nature from a Joint Legislative Audit Committee Member may be approved with the concurrence of the Chairman and Vice-Chairman provided that:
 - a. All Joint Legislative Audit Committee members are notified in writing
 - b. Notification includes a statement that action will be deferred for 72 hours to allow any member to request the audit be deferred until the next meeting;and be it further resolved that the audit request, in any event, shall be placed on the next meeting agenda. (4/7/76)
7. An audit or survey request received during interim (recess) may be approved with the concurrence of the Chairman and Vice Chairman; and be it further resolved that no audit shall commence until five working days after notifying in writing the Joint Legislative Audit Committee members Capitol offices of the audit approval. (8/4/76)

8. Any member of the Joint Legislative Audit Committee may at any time request from the Chairman a report on the status of any audit in progress. (6/3/75)
9. At the conclusion of an audit, the Auditor General or his designated representative shall discuss the audit with the official whose office is subject to audit and submit necessary underlying facts supporting all findings and recommendations which may be included in the report. The official shall be permitted three working days to examine and evaluate the audit findings on a confidential basis and shall be permitted to submit to the Auditor General or his designated representative a written statement of concurrence, explanation or rebuttal concerning the audit findings, including a statement of action taken or under consideration relative to the audit findings and recommendations. The Chairman may extend the time permitted for such examination and evaluation where justified by special circumstances. If such a statement is not received within the time allowed, the Auditor General may submit the report to the Joint Legislative Audit Committee without it. (6/3/75)
10. Upon receiving the statement from the official whose office is subject to audit, the Auditor General shall prepare a final report. The Auditor General may comment in the final report on the statement from the official whose office is subject to audit. The Auditor General shall transmit a copy of the final report, together with the statement from the official whose office is subject to audit, to each member of the Joint Legislative Audit Committee. (6/3/75)
11. The Chairman of the Joint Legislative Audit Committee, upon receiving a request by any Member of the Legislature or committee thereof for a copy of a report prepared or being prepared by the Auditor General, shall provide the member or committee with a copy of such report when it is, or has been, submitted by the Auditor General to the Joint Legislative Audit Committee. (Joint Rule 37.3/1975-76)
12. The Chairman shall publicly release the final audit report no sooner than 48 hours after the final audit report has been transmitted to the members of the Joint Legislative Audit Committee. (6/3/75)
13. Any member of the Joint Legislative Audit Committee may request a public hearing to review the report of the Auditor General. Upon receiving such a request, the Chairman shall schedule a public hearing at a reasonable time and location and inform the members of the Joint Legislative Audit Committee. For the purpose of conducting the public hearing, the Chairman shall either convene the Joint Legislative Audit Committee or appoint a subcommittee. The Chairman, or any member of the Joint Legislative Audit Committee designated by the Chairman, shall preside. The official whose office is subject to audit together with the Auditor General, or their designated representatives, and any other person summoned by the Chairman of the Committee or subcommittee conducting the public hearing, shall appear at the hearing to supply testimony, oral and documentary, and to produce any books, accounts, reports, documents, records or papers of any kind deemed relevant by the Chairman. (6/3/75)

Who Audits the Auditors ?

In 1976, the financial statements of the Office of the Auditor General were examined for the first time by a private certified public accounting firm. The complete results of the audit are printed here for the public. The Joint Legislative Audit Committee and the Office of the Auditor General concur with all the comments in the management letter. All recommendations have been implemented.

Porterfield & Co.
CERTIFIED PUBLIC ACCOUNTANTS

September 2, 1976

Joint Legislative Audit Committee
Office of the Auditor General
California Legislature
Sacramento, California

Gentlemen:

During the course of our examination of the financial statements of the Office of the Auditor General, we conducted a review of accounting procedures and corresponding evaluation of the internal accounting controls. The results indicate that internal accounting controls were adequate on an overall basis during the period under examination and audit tests of detailed transactions indicate that established procedures were effectively implemented. The following summarizes internal accounting control weaknesses and recommendations, which if implemented would further strengthen accounting controls and allow for a more efficient and effective operation.

- . Documentation of accounting procedures is lacking in many phases of the accounting operation. A written record of procedures should be maintained and periodically reviewed and updated. The written record should include assignment of accounting functions and responsibilities, and designate the form and flow of accounting information.
- . There are no established accounting procedures for fixed assets. The following summarizes our recommendations:
 1. Establish a minimum dollar amount for capitalization of fixed assets.
 2. Maintain a detail of fixed assets by location and reconcile the detail to general ledger control on a monthly basis.
 3. Assign responsibility for authorization and approval of fixed asset purchases, transfer, and disposal with proper officials.
 4. Take an annual physical inventory of fixed assets.

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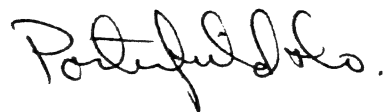
- . The payroll preparation and payroll check distribution are assigned to the same employee. To maintain good internal control, we recommend that distribution of payroll checks be assigned to an employee who has no other payroll functions.
- . The employees assigned the responsibility for accounts payable and check preparation have access to checks and supporting documents subsequent to the signing of the checks. Again, to maintain good internal control, signed checks should be forwarded to an employee independent of the accounts payable function for mailing, or distribution to employees in the case of payroll advances.

Each of the above recommendations has been discussed with management. In the case of the first two recommendations, maintenance of an accounting manual, and establishment of accounting procedures for fixed assets, we found that some procedures have been developed subsequent to the audit and the balance are in the process of being developed. Management agreed that the other two recommendations regarding segregation of duties in distribution of both payroll and accounts payable checks were appropriate and that action would be taken to segregate those functions.

Also during our audit, we had the opportunity to review the internal audit report of the Office at June 30, 1975. Based on our review of the recommendations made in that audit, we are satisfied that the recommendations have been satisfactorily implemented subsequent to the issuance of that report.

This letter is not based upon a complete survey of all phases of operating and management controls; it does, however, direct attention to certain areas that we believe to be especially worthy of management consideration which came to our attention during our examination. We appreciate that the ultimate objective of management is to achieve maximum control at minimum cost. We believe that adoption of the recommendations enumerated in this letter is compatible with that objective.

After you have reviewed this letter we will be pleased to discuss the contents with you and to assist in the implementation or correction of any of the items set forth herein.



JLC:bmm

Porterfield & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Joint Legislative Audit Committee
Office of the Auditor General
California Legislature
Sacramento, California

We have examined the balance sheet of the Office of the Auditor General as of June 30, 1976 and the related statement of changes in fund balance and statement of expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Office of the Auditor General at June 30, 1976 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Porterfield & Co.

August 30, 1976

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF FINANCIAL POSITION
JUNE 30, 1976

ASSETS

Cash, revolving fund		\$ 28 544
Travel advances	\$ 2 943	
Less amounts due employees	<u>1 487</u>	<u>1 456</u>
Total revolving fund		30 000
Cash in State Treasury		541 185
Accounts receivable		531
Furniture, fixtures and office equipment		63 489
Leasehold improvements		<u>60 854</u>
Total assets		<u>\$696 059</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 810
Accrued expenses	<u>79 530</u>
Total liabilities	80 340

FUND BALANCE

Investment in fixed assets	\$ 63 489
Investment in leasehold improvements	60 854
Revolving fund allotment	30 000
Unexpended allotment - Note 2	<u>461 376</u>
	<u>615 719</u>
Total liabilities and fund balance	<u>\$696 059</u>

See accompanying notes to financial statements.

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 1976

FUND BALANCE, JUNE 30, 1975		\$272 275
Augmentation - ACR98, 1975-76 session	\$1 763 000	
Less expenses for year ended June 30, 1976	<u>1 574 147</u>	188 853
Miscellaneous reimbursements		<u>248</u>
FUND BALANCE, JUNE 30, 1976		<u>\$461 376</u>

See accompanying notes to financial statements.

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF EXPENSES
YEAR ENDED JUNE 30, 1976

SALARIES	\$1 138 126
EMPLOYEE BENEFITS	174 252
OPERATING EXPENSES	
Travel	69 066
Services and supplies	178 667
Furniture and equipment	8 659
Committee	<u>5 377</u>
Total expenses	<u>\$1 574 147</u>

See accompanying notes to financial statements.

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1976

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method - Assets, liabilities, and expenses are recognized on the accrual basis of accounting for financial statement purposes. Revenue is recognized in the year of augmentation.

Furniture, Fixtures and Equipment - Furniture, fixtures and equipment are stated at cost. Expenditures for furniture and equipment are included in the statement of expenses during the year of purchase; accordingly, there is no depreciation taken on fixed assets.

Leasehold Improvements - Leasehold improvements are stated at cost. Expenditures for leasehold improvements are included in the statement of expenses during the year of purchase; accordingly, there is no amortization taken on leasehold improvements.

Office Space and Lease Commitments - Although there is a lease for the office space used by the Office of the Auditor General, the lease is with the Department of General Services, State of California. The Department of General Services provides the space without charge, therefore the obligation under the lease is not reflected in these statements.

NOTE 2 - UNEXPENDED ALLOTMENT

After negotiations during May and June, 1976, the Office of the Auditor General entered into a contract on July 19, 1976, with Arthur Andersen & Co. The contract, in the amount of \$55,000, is for audit services involving Medi-Cal fiscal intermediary operations. These services will be performed during the year ended June 30, 1977. A provision of the contract provides for additional services as required which it is estimated could bring the total obligation under the contract to \$150,000.